

Message Text

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ACTION EA-09

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 EB-07

FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03

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AMEMBASSY TOKYO
AMEMBASSY WELLINGTON
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AMCONSUL BRISBANE
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CINCPAC FOR POLAD

E.O. 11652: N/A
TAGS: EALR, ECON, EFIN, AS
SUBJECT: OBSERVATIONS ON GOA NOVEMBER 7 FINANCIAL MEASURES

REF: CANBERRA 8103

1. THE TREASURER'S NOVEMBER 8 FINANCIAL PACKAGE (CANBERRA 8103) CAME AS A SURPRISE TO AUSTRALIAN FINANCIAL COMMUNITY. INITIAL REACTIONS HAVE RANGED FROM APPLAUSE FOR THE STRONG REAFFIRMATION THESE MEASURES REPRESENT OF GOA'S PRIORITY ON REDUCING INFLATION TO SERIOUS QUESTIONING OF WHETHER THE
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FALTERING PROGRESS OF AUSTRALIAN RECOVERY CAN WITHSTAND
TIGHTENING OF BANK CREDIT AND INCREASED INTEREST RATES.

2. THE MAIN OBJECTIVE IS TO CURB THE GROWTH RATE OF MONEY SUPPLY, AND ATTRACT FUNDS TO GOVERNMENT SECURITIES. THE GOA DEFICIT HAS BEEN RUNNING AHEAD OF ORIGINAL FY 77 BUDGET ESTIMATES AND THIS TOGETHER WITH BANK AND HOUSING LENDING HAS REPORTEDLY CAUSED MONEY SUPPLY SUBSTANTIALLY TO EXCEED 10-12 PERCENT GROWTH TARGETS POSTULATED IN FY 77 BUDGER. GOA DEFICIT FOR EARLY MONTHS FY 77 HAS BEEN DEEPENED BY EFFECT ON REVENUE OF INVESTMENT ALLOWANCES AND OTHER TAX BENEFITS INSTITUTED BY GOVERNMENT EARLIER THIS YEAR.

3. INITIAL PRESS REACTION HAS FEATURED CONTENTION THAT NOVEMBER 7 FINANCIAL PACKAGE WAS ALTERNATIVE TO DEVALUATION AND PROBABLY ELIMINATES OR INDEFINITELY POSTPONES POSSIBILITY OF A\$ DEVALUATION. WHILE ANY CONTRIBUTION THESE MEASURES MAKE TO REDUCING INFLATION WILL OBVIOUSLY REDUCE PRESSURES FOR DEVALUATION, WE DO NOT SHARE WIDESPREAD IMPRESSION THAT NOVEMBER 7 ANNOUNCEMENTS REPRESENTED CONSCIOUS GOA DECISION TO OPT FOR FINANCIAL TIGHTENING INSTEAD OF DEVALUATION. THIS WIDESPREAD IMPRESSION PROBABLY STIMULATED BY NEWS OF HASTILY-CALLED CABINET SESSIONS NOVEMBER 5 WHICH IN TURN GENERATED WIDESPREAD NOVEMBER 5 AND 6 RUMORS OF IMMEDIATE DEVALUATION. WHILE IT IS ENTIRELY PROBABLE THAT CABINET, IN REVIEWING PROPOSAL TO ADOPT THIS NEW FINANCIAL PACKAGE, ROUTINELY CANVASSED OTHER OBVIOUS PROPOSALS WHICH ARE NOW UNDER CONTINUOUS DEBATE, OUR SURMISE IS THAT THIS PACKAGE MAY BE AIMED PRIMARILY AT CURRENT DELIBERATIONS OF CONCILIATION AND ARBITRATION COMMISSION ON QUESTION OF QUARTERLY WAGE ADJUSTMENT FOLLOWING SEPTEMBER QUARTER 2.2 PERCENT CPI INCREASE. GOA IS PRESSING COMMISSION FOR "PLATEAU" INDEXATION WHICH WOULD LIMIT WAGE ADJUSTMENT, AS IN PREVIOUS TWO QUARTERS, TO LEVEL BELOW FULL AMOUNT OF CPI INCREASE. LABOR IS DEMANDING FULL 2.2 PERCENT CPI ADJUSTMENT PLUS ADDITIONAL ADJUSTMENT TO COMPENSATE FOR PARTIAL ADJUSTMENTS IN PREVIOUS QUARTERS. CABINET ADOPTION AT THIS TIME OF STERN NEW ANTI-INFLATION MEASURES CAN BE INTERPRETED IN PART AS REINFORCING GOVERNMENT'S EFFORT TO IMPRESS COMMISSION WITH URGENCY OF ANTI-INFLATION PROGRAM AND NEED FOR CONTINUATION OF LESS-THAN-FULL WAGE INDEXATION POLICY.

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RM NOTWITHSTANDING NOVEMBER 7 TIGHTENING OF FINANCIAL MEASURES, GOVERNMENT PROBABLY STILL FACES PROSPECT IN LATE JANUARY 1977 OF CPI DECEMBER QUARTER INCREASE SHARPLY HIGHER THAN SEPTEMBER 30 FIGURE, COMBINED WITH SHARP INCRREASE IN JANUARY 30 UNEMPLOYMENT RATE FOLLOWING END OF SCHOOL YEAR IN DECEMBER. THIS MEANS THAT WHEN PARLIAMENT AND COUNTRY RETURN TO WORK IN FEBRUARY, FOLLOWING DECEMBER-JANUARY SUMMER VACATION PERIOD, GOVERNMENT'S AUSTERE APPROACH WILL BE SEVERLY TESTED BY BUSINESS, LABOR AND POLITICAL PRESSURE FOR

STIMULATORY MEASURES, CONCEIVABLY INCLUDING DEVALUATION,
UNLESS BY THEN THERE IS CLEAR EVIDENCE THAT IMMEDIATE PROGRESS
ON EMPLOYMENT AND BUSINESS ACTIVITY IS IN PROSPECT. HARGROVE

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